

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2019-3-E – ORDER NO. 2019-__

September __, 2019

IN RE:	Annual Review of Base Rates for Fuel Costs of Duke Energy Carolinas, LLC)))))	PARTIAL PROPOSED ORDER
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I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the annual review of base rates for fuel costs of Duke Energy Carolinas, LLC (“DEC” or “Company”). The procedure followed by the Commission is set forth in S.C. Code Ann. § 58-27-865 (2015), which provides for annual hearings to allow the Commission and all interested parties to review the prudence of the fuel purchasing practices and policies of an electrical utility and for the Commission to determine if any adjustment in a utility’s fuel cost recovery mechanism is necessary and reasonable. Additionally, and pursuant to S.C. Code Ann. § 58-39-140 (2015), the Commission must determine in this proceeding whether an increase or decrease should be granted in the fuel cost component designed to recover the incremental or avoided costs incurred by the Company to implement the Distributed Energy Resource Program (“DERP”) previously approved by the Commission.

1. Notice and Intervention

By letter dated March 18, 2019 the Clerk’s Office of the Commission instructed the Company to publish a Notice of Hearing and Pre-file Testimony Deadlines (“Notice”)

in newspapers of general circulation and provide Proof of Publication on or before May 24, 2019. The letter also instructed the Company to furnish the Notice to each affected customer and provide a certification to the Commission on or before June 14, 2019, that notification has been furnished.

The Notice indicated the nature of the proceeding and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file appropriate pleadings. On May 28, 2019, the Company filed with the Commission affidavits demonstrating that the Notice was duly published, and on May 28, 2019, the Company filed with the Commission a letter certifying that a copy of the Notice was furnished to the Company's retail customers in South Carolina in accordance with the instructions set forth in the Clerk's Office letters starting April 8, 2019 and completed on May 7, 2019.

Petitions to Intervene were received from the South Carolina Energy Users Committee (the "Committee"), the South Carolina Coastal Conservation League ("CCL"), Southern Alliance for Clean Energy ("SACE"), and the South Carolina Solar Business Alliance, LLC ("SBA"). The South Carolina Office of Regulatory Staff ("ORS") is automatically a party pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2018).

There was no opposition to any of the Petitions to Intervene and the Commission issued Orders granting each Petition to Intervene.

II. THE COMMISSION'S JURISDICTION

In accordance with S.C. Code Ann. § 58-27-140 (1) (2015), the Commission may, upon petition, "ascertain and fix just and reasonable standards, classifications, regulations, practices or service to be furnished, imposed, observed, and followed by any

or all electrical utilities.” Further, S.C. Code Ann. § 58-27-865(B) (2015) states, in pertinent part, that “[u]pon conducting public hearings in accordance with law, the commission shall direct each company to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the commission to be appropriate for that period, adjusted for the under-recovery or under-recovery from the preceding twelve-month period.”

Consistent with the requirements of S.C. Code Ann. § 58-27-865(B), the Commission convened an evidentiary hearing to determine the reasonableness of the Company’s proposed rates to recover fuel costs, the reasonableness of the Stipulation, and whether acceptance of the Stipulation is just, fair and in the public interest.

III. DISCUSSION OF THE HEARING, IN PERTINENT PART¹

The Commission convened a public evidentiary hearing in this matter on September 10, 2019, with the Honorable Comer H. “Randy” Randall presiding as Chairman. Representing the Parties and appearing before the Commission in this Docket were Rebecca J. Dulin, Esquire, Samuel J. Wellborn, Esquire for the Company; William C. Cleveland, IV, Esquire for SACE/CCL; Scott Elliott for the Committee, and Alexander W. Knowles, Esquire, and Andrew M. Bateman, Esquire, for ORS.² DEC and ORS presented witnesses regarding the Company’s base rates for fuel costs. CCL/SACE presented testimony from Gregory M. Lander regarding the Company’s management of its contracts on interstate natural gas pipelines to deliver gas to the Company’s gas-fired generating units.

¹ CCL/SACE took a narrow interest in this case regarding natural gas pipeline capacity. As such, this Proposed Order’s discussion of the case is limited to that topic.

² Richard L. Whitt, representing SBA, requested to be excused from the hearing, which the Commission granted.

1. Mr. Lander's Testimony

Mr. Lander testified that DEC has contracts on interstate natural gas pipelines to deliver gas to its gas-fired units. He further testified that since generation at those units varies as a function of demand, there may be times when DEC does not need all of its contracted capacity. Firm transportation contracts, however, require DEC to pay for the contracted capacity 100 percent of the time. Mr. Lander testified that when a utility knows that it has excess capacity, it has an opportunity to monetize it to benefit utility ratepayers, either by using the capacity to buy gas in one location and sell it at a profit at another (known as “third party sales”) or by releasing the capacity itself to a third party (“capacity release”). Mr. Lander requested data from DEC regarding its daily and hourly usage of gas at its generating units so that he could evaluate whether there exists unused, unmonetized capacity. Through discovery responses, DEC testified that it does not track or report such data. Mr. Lander recommended the Commission require DEC to begin tracking and reporting such data going forward so that interested parties could evaluate how well DEC uses its pipeline capacity. Mr. Lander further recommended that DEC track the profit margins it makes on any third party sales and use those margins to set a reserve price for any potential capacity releases, thus ensuring DEC always receives maximum possible value for any unused capacity. Mr. Lander also noted that other South Carolina utilities, such as Dominion Energy South Carolina, already track this data and make it available to intervening parties. Moreover, Mr. Lander noted that in Dominion's home state Virginia, the State Corporation Commission has for two years in a row ordered Dominion to “demonstrate in its next fuel factor proceeding how it monetizes the unused portion of its natural gas pipeline capacity portfolio on days when the system is

not constrained.”³ Mr. Lander testified that without this data, neither the Commission nor intervenors can know how much money DEC is leaving on the table; Mr. Lander speculated the amount could be in the millions of dollars annually.

2. DEC’s Rebuttal Testimony

DEC presented rebuttal testimony from Brett Phipps to respond to Mr. Lander. Mr. Phipps confirmed that the Company does indeed not track or report its daily and hourly gas usage. Mr. Phipps also confirmed that the Company could track and report such data, if the Commission orders. Nevertheless, Mr. Phipps urged the Commission to reject Mr. Lander’s recommendations, claiming – without evidence – that the Company could not manage its natural gas pipeline contracts any better than it currently does.

IV. FINDINGS OF FACT AND CONCLUSIONS OF LAW

Having heard the testimony of the witnesses and representations of counsel and after careful review of the record, the Commission finds that DEC has an obligation to provide reliable electric service to its customers at the lowest reasonable cost. DEC pays for natural gas pipeline capacity every day of every year and recovers those costs from its customers. Depending on demand, there may be days where DEC’s system is not constrained, which means there may be potential for DEC to reduce ratepayers’ total cost, as Mr. Lander states, either through third party sales or capacity releases. Currently, the Commission has no data by which it can evaluate this issue because DEC does not track

³ *Application of Virginia Electric and Power Company to Revise its Fuel Factor Pursuant to § 56-249.6 of the Code of Virginia*, Case No. PUR-2018-0006, August 27, 2018 Order at 5, available at <http://www.scc.virginia.gov/docketsearch/DOCS/3nf%2401!.PDF>; see also *Application of Virginia Electric and Power Company to Revise its Fuel Factor Pursuant to § 56-249.6 of the Code of Virginia*, Case No. PUR-2019-0070, August 15, 2019 Order at 4, available at <http://www.scc.virginia.gov/docketsearch/DOCS/4%24b%2401!.PDF>.

or report its hourly and daily gas usage at its generating facilities. DEC concedes that, if directed, it could track and report this data in the future.

IT IS THEREFORE ORDERED THAT:

1. DEC shall track and report all gas consumption at all generation units on an hourly basis.
2. If DEC uses its capacity to engage in third party sales, it shall track and report the profit margins it makes on those sales.

BY ORDER OF THE COMMISSION:

Comer H. Randall, Chairman

ATTEST

Justin T. Williams, Vice-Chairman

(SEAL)